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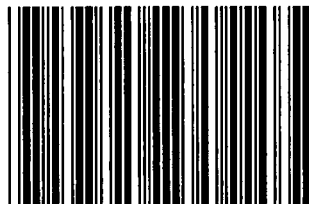
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BAUCUS

THE 1983 PACIFIC NORTHWEST CONFERENCE ON EXPORTS

SENATOR MAX BAUCUS

JUNE 2, 1983

INTRODUCTION

THANK YOU.

I'M HAPPY TO BE IN PORTLAND TODAY TO DISCUSS INTERNATIONAL TRADE POLICY.

THESE DAYS, MOST DISCUSSIONS OF INTERNATIONAL TRADE POLICY ARE GRIM. EVERYWHERE, WE HEAR THAT AMERICA IS LOSING THE BATTLE FOR INTERNATIONAL SALES. THIS GENERATES PESSIMISM. SOME AMERICANS HAVE EVEN BEGUN TO DOUBT OUR ABILITY TO COMPETE.

IF ROBERT GRAY COULD HEAR THIS PESSIMISM, HE WOULD SHUDDER IN HIS GRAVE.

BACK AROUND 1800, GRAY COMMANDED THE MERCHANT SLOOP COLUMBIA. HE PROWLED THE NORTHWEST COASTLINE, TRADING TRINKETS FOR FURS. ALONG THE WAY, HE DISCOVERED THE GREAT RIVER THAT BEARS HIS SLOOP'S NAME.

THEN HE TURNED WEST, FOR THE SPICE MARKETS OF CANTON AND MACAO. WHEN HE FINALLY SAILED INTO BOSTON HARBOR, GRAY BECAME THE FIRST AMERICAN TO CIRCLE THE GLOBE.

ALL ALONG THE VOYAGE, GRAY AND HIS MEN WERE BESET BY STORMS, SCURVY, AND PIRATE ATTACKS. BUT THEY PERSEVERED, BECAUSE THEY POSSESSED AN AGGRESSIVE TRADING SPIRIT.

WE MUST REKINDLE THAT SPIRIT NOW. OUR TRADE PROBLEMS ARE SERIOUS, BUT THEY ARE NOT IRREVERSIBLE. WITH SOUND FEDERAL POLICIES AND CONFIDENT, INNOVATIVE BUSINESS STRATEGIES, WE CAN TAKE ON THE WORLD AGAIN.

EXPORT FINANCING

AS YOU KNOW, EXPORT FINANCING IS A CRITICAL PART OF ANY EXPORT TRANSACTION. IT CAN MAKE OR BREAK A SALE. SEVERAL FEDERAL POLICIES AFFECT EXPORT FINANCING. TODAY I WOULD LIKE TO DISCUSS THREE ESPECIALLY IMPORTANT ONES: EXCHANGE RATE POLICY, EXPORT FINANCING ASSISTANCE, AND EXPORT TAXATION.

EXCHANGE RATES

LET'S START WITH EXCHANGE RATES.

AN OVERVALUED DOLLAR MAKES EXPORTS MORE EXPENSIVE. RECENT EVENTS SHOW HOW MUCH HARM THIS CAN CAUSE. DURING THE PAST TWO YEARS, HIGH INTEREST RATES GENERATED A HUGE DEMAND FOR DOLLARS. THIS, IN TURN, INFLATED THE DOLLAR'S INTERNATIONAL VALUE. FOR EXAMPLE, THE DOLLAR ROSE 50% AGAINST THE MARK AND 35% AGAINST THE YEN.

THE RESULT? DISASTER: FOR FARMERS, MINERS, TIMBERMEN, AND ANY NORTHWEST COMPANY TRYING TO DEVELOP NEW EXPORT MARKETS.

TO PREVENT SUCH DISASTERS FROM RECURRING, WE MUST MAKE TWO ADJUSTMENTS.

FIRST, WE MUST FORCE INTEREST RATES TO COME DOWN AND STAY DOWN. BASICALLY, THIS MEANS REDUCING THE BLOATED FEDERAL DEFICIT. AS THE PRESIDENT'S OWN CHIEF ECONOMIC ADVISER, MARTIN FELDSTEIN, RECENTLY SAID: "OUR TRADE DEFICITS CAN SHRINK AND AMERICAN INDUSTRY CAN RETURN TO ITS PREVIOUS STRONG ROLE IN THE WORLD ECONOMYIF WE PROVIDE THE APPROPRIATE FISCAL FRAMEWORK OF DECLINING BUDGET DEFICITS." I COULDN'T AGREE MORE.

SECOND, WE MUST SOMEHOW CONTROL EXCHANGE RATE FLUCTUATIONS. THE SO-CALLED "BRETTON WOODS" SYSTEM OF FIXED EXCHANGE RATES WAS ABOLISHED IN 1971. SINCE THEN, THE DOLLAR HAS "FLOATED" ON A SEA OF SPECULATION. DURING THIS TIME, WILD EXCHANGE RATE FLUCUATIONS HAVE UNDERMINED THE BUSINESS CERTAINTY NEEDED FOR LONG-TERM EXPORT DEVELOPMENT. AND SOME OTHER FOREIGN COUNTRIES HAVE MANIPULATED EXCHANGE RATES TO PROMOTE THEIR OWN EXPORTS.

GIVEN THESE PROBLEMS, MANY RESPECTED ECONOMISTS HAVE SUGGESTED REFORMING THE EXCHANGE RATE SYSTEM. BUT, SO FAR, THE PRESIDENT HAS RESISTED THESE SUGGESTIONS, MAINTAINING HIS COMMITMENT TO THE CURRENT FLOATING SYSTEM.

WHILE I ADMIRE THE PRESIDENT'S PERSISTENCE, I QUESTION HIS JUDGMENT. ECONOMICS IS NOT RELIGION. THE EVIDENCE CLEARLY SHOWS THAT WE SHOULD RESTORE SOME KIND OF ORDER TO THE EXCHANGE RATE

SYSTEM.

THEREFORE, LAST WEEK, I ASKED THE SENATE TO CONSIDER MODERATE PROPOSALS FOR DOING SO. I HOPE THAT THE PRESIDENT CHANGES HIS MIND AND JOINS THIS EFFORT.

EXPORT FINANCING ASSISTANCE

NOW LET'S FOCUS ON EXPORT FINANCING ASSISTANCE.

THE EXPORT-IMPORT BANK HELPS U.S. COMPANIES RESPOND TO SUBSIDIZED FOREIGN FINANCING. LAST YEAR, EX-IM PROVIDED LOANS, GUARANTEES OR OTHER FINANCING ASSISTANCE FOR ALMOST \$19 BILLION WORTH OF U.S. EXPORTS. EXPORTS.

HOWEVER, EX-IM HAS BEEN SHACKLED. THE EX-IM ACT REQUIRES THE BANK BOTH TO COMPETE WITH SUBSIDIZED FOREIGN FINANCING AND TO BE SELF-SUSTAINING. DURING FINANCING "WARS" LIKE THE ONE DURING THE PAST TWO YEARS, THESE OBJECTIVES HAVE COLLIDED. FOR EXAMPLE, LAST YEAR, NEARLY \$1 BILLION IN EX-IM LENDING AUTHORITY WENT UNUSED BECAUSE EX-IM EMPHASIZED BALANCING ITS BOOKS OVER MEETING FOREIGN COMPETITION.

THIS YEAR, CONGRESS MUST REAUTHORIZE EX-IM. WHEN IT DOES, I HOPE WE MAKE TWO IMPORTANT CHANGES. FIRST, WE SHOULD SPECIFY THAT EX-IM'S PRIMARY OBJECTIVE IS TO PROVIDE COMPETITIVE FINANCING. WHEN ANOTHER FINANCING "WAR" BREAKS OUT, I'D RATHER HAVE EX-IM ASK CONGRESS FOR AN APPROPRIATION THAN HAVE AMERICAN COMPANIES LOSE SALES TO UNFAIR FOREIGN COMPETITORS.

SECOND, WE SHOULD EXPAND EX-IM'S COVERAGE. FOR EXAMPLE, EX-IM HAS NOT PROVIDED ENOUGH ASSISTANCE TO HOUSING EXPORTS OR SMALL BUSINESS EXPORTS. THIS MUST CHANGE.

EXPORT TAXATION

FINALLY, LET'S TURN TO EXPORT TAXATION.

MOST OTHER INDUSTRIALIZED COUNTRIES ONLY TAX INCOME EARNED WITHIN THEIR BORDERS. WHAT'S MORE, THEY REMIT "VALUE-ADDED" TAXES ON EXPORTED PRODUCTS.

THE U.S. SYSTEM IS VERY DIFFERENT. WE TAX INCOME WORLDWIDE, WHEREVER IT IS EARNED. AND WE REMIT NOTHING.

FOR YEARS, THE DIFFERENCE BETWEEN THE TWO TAXATION SYSTEMS GAVE OUR FOREIGN COMPETITORS A CLEAR ADVANTAGE. TO COMPENSATE, IN 1971, CONGRESS PASSED THE "DOMESTIC INTERNATIONAL SALES CORPORATION" OR "DISC" ACT. BASICALLY, DISC PERMITS QUALIFIED U.S. EXPORTERS TO DEFER 50% OF THEIR TAXES.

DISC HAS WORKED PRETTY WELL. FOR EXAMPLE, IN 1980, \$131 BILLION WORTH OF U.S. PRODUCTS WERE EXPORTED THROUGH DISC, INCLUDING \$35 BILLION WORTH OF AGRICULTURAL PRODUCTS, \$3 BILLION OF LUMBER PRODUCTS, AND \$800 BILLION OF MINERAL PRODUCTS. INDEED, THE TREASURY DEPARTMENT ESTIMATES THAT DISC INCREASED OVERALL U.S. EXPORTS BY AS MUCH AS 9%.

UNFORTUNATELY, DISC HAS BEEN ATTACKED BY FOREIGN COMPETITORS. LAST YEAR, THE GATT COUNCIL HELD THAT DISC IS AN

ILLEGAL EXPORT SUBSIDY.

I THINK THIS DECISION WAS A CLASSIC EXAMPLE OF THE POT CALLING THE KETTLE BLACK. NEVERTHELESS, OUR COMMITMENT TO THE FREE TRADE PRINCIPLES EMBODIED IN GATT REQUIRES US TO REPLACE DISC WITH A NEW TAX INCENTIVE THAT FITS THE GATT FRAMEWORK.

AS YOU MAY KNOW, THE ADMINISTRATION HAS PROPOSED A WAY TO ACCOMPLISH THIS. UNDER ITS PROPOSAL, AN EXPORTER WHO MAINTAINS A SUFFICIENT "OVERSEAS PRESENCE" WILL BE ELIGIBLE FOR A TAX EXEMPTION OF ABOUT 17%.

THIS PROPOSAL IS A STEP IN THE RIGHT DIRECTION. HOWEVER, SEVERAL ASPECTS OF IT CONCERN ME.

FIRST, THE PROPOSAL IS TOO COMPLEX. IT STARTS OFF REQUIRING A COMPANY TO HAVE AN OFFICE, AN AGENT, A DIRECTOR AND BOOKS OVERSEAS. SO FAR, SO GOOD. BUT THEN IT LISTS A DIZZYING ARRAY OF "FUNCTIONS" AND "PROCESSES" THE COMPANY MUST PERFORM OVERSEAS.

AS A FORMER SEC LAWYER, I KNOW A COMPLEX REQUIREMENT WHEN I SEE ONE. THIS PLAN MIGHT BRING MORE BUSINESS TO SHARP LAWYERS, BUT IT WON'T ENCOURAGE EXPORTS. I BELIEVE THE REQUIREMENTS IN THE PROPOSAL MUST BE SIMPLIFIED AND CLARIFIED TO BE USEFUL TO U.S. EXPORTERS.

SECOND, THE ADMINISTRATION MAY HAVE OVERLOOKED THE UNIQUE CHARACTERISTICS OF AGRICULTURAL TRADE. SOME OF THE OVERSEAS

PRESENCE TESTS THAT ARE APPROPRIATE FOR FORTUNE 500 MANUFACTURING COMPANIES MAY BE INAPPROPRIATE FOR AGRICULTURAL TRADERS.

WHAT'S MORE, RECENT GATT DECISIONS, LIKE THE WHEAT FLOUR DECISION, INDICATE THAT AGRICULTURAL PRODUCTS SOMETIMES ARE SUBJECT TO A MORE LENIENT STANDARD THAN MANUFACTURING PRODUCTS. THEREFORE, WE MAY WANT TO PROVIDE SPECIAL TREATMENT FOR AGRICULTURAL EXPORTERS.

THIRD, THE ADMINISTRATION MAY HAVE UNDEREMPHASIZED THE NEEDS OF SMALL BUSINESSES. THE SMALL BUSINESS ADMINISTRATION ESTIMATES THAT BETWEEN TWENTY AND THIRTY THOUSAND U.S. SMALL BUSINESSES ARE CAPABLE OF EXPORTING BUT DON'T. TO ENCOURAGE THESE COMPANIES TO EXPORT, WE MUST DEVELOP NEW, STREAMLINED MECHANISMS TO HELP THEM.

MANY SMALL BUSINESSES WILL BE UNABLE TO MEET THE ADMINISTRATION'S GENERAL OVERSEAS PRESENCE TEST. RECOGNIZING THIS, THE ADMINISTRATION APPARENTLY PLANS TO PROPOSE A SPECIAL, EASIER, SMALL BUSINESS TEST.

BUT FROM WHAT I'VE HEARD, EVEN THIS TEST WON'T GO FAR ENOUGH. I BELIEVE THAT WE SHOULD EITHER COMPLETELY EXEMPT SMALL BUSINESSES FROM THE TEST, OR, AS THE CHAMBER OF COMMERCE SUGGESTS, LET THEM MAINTAIN THEIR OVERSEAS PRESENCE IN ANY OF THE SO-CALLED FOREIGN TRADE ZONES THAT EXIST RIGHT HERE IN THE UNITED STATES.

SO, ALTHOUGH WE'RE MOVING IN THE RIGHT DIRECTION, WE STILL

HAVE A LOT OF WORK TO DO. FOR MY PART, I PLAN TO OFFER AGRICULTURAL AND SMALL BUSINESS AMENDMENTS WHEN THE FINANCE COMMITTEE CONSIDERS DISC.

CONCLUSION

THE STAKES ARE HIGH AND THE COMPETITION IS FIERCE. BUT THIS SHOULD NOT DETER US. THE GREAT NORTHWEST TRADERS OF THE PAST OVERCAME STORMS, SCURVY, AND PIRATE ATTACKS.

IF WE REKINDLE THEIR AGGRESSIVE TRADING SPIRIT, WE CAN OVERCOME TRADE BARRIERS AND FOREIGN COMPETITION. THAT WAY, WE CAN BRING NORTHWEST GRAIN, TIMBER, COAL, AND HIGH TECHNOLOGY TO LARGER AND LARGER EXPORT MARKETS.

WE CAN TAKE ON THE WORLD AGAIN.